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¶1. (U) Summary. This is Volume 9, issue 10 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:

- Government Still Sees Growth in 2009
- Job Growth Data Sparks Disbelief
- South Africa's House Prices Still Falling
- New Vehicle Sales Continue to Tumble
- No Basic Income Grant, Says ANC's Gwede Mantashe
- Trade Expert Derides South Africa's Response to Economic Crisis
- Transnet Names Acting CEO
- Vodacom to Make JSE Debut
- Energy Minister Says South Africa Faces Imminent Power Distribution Crisis
- Ferrochrome Producer Closes Furnaces but Keeps Staff

End Summary.

Government Still Sees Growth in 2009

¶2. (U) Deputy Minister of Trade and Industry Rob Davies expected the South African economy to grow in 2009 despite a contraction in the fourth quarter of last year. The bottom of the global economic crisis was not yet visible, remarked Davies, adding that the main macroeconomic challenge for South Africa is its current account deficit. South Africa announced a record trade deficit for January and its first drop in gross domestic product (GDP) for a decade in the fourth quarter of last year, as the global crisis hammered manufacturers. Davies predicted that the trade deficit would start to correct itself in the next few months as a result of slowing consumer demand and a weaker rand, which is depressing imports. The decline in export earnings largely reflects falling earnings for mineral exports. The price of many minerals has declined, with demand for platinum, hit especially hard as car sales slump. South Africa's economy is well-cushioned against the worldwide crisis because of a recently re-affirmed R787 billion ($78 billion) infrastructure program over the next three years. (Fin 24, March 2, 2009)

Job Growth Data Sparks Disbelief

¶3. (U) Employment rose while the economy contracted in the fourth quarter of 2008, surprising analysts. The unemployment rate fell from 23.2% in the third quarter to 21.9% in the fourth quarter. South Africa's official jobless rate is the lowest in a decade, with 189,000 new jobs created, according to Statistics SA. Employment rose by 34,000 in two of the economy's most embattled sectors - manufacturing and mining, which together make up more than a fifth of overall output. Given that factory production plunged by a record 21.8% in the fourth quarter and mining companies have announced plans to cut more than 20,000 jobs, the falling unemployment rate was unexpected. With a technical recession under way and demand shriveling, the pace of job creation is likely to be soft in 2009. The narrowing of the unemployment rate in Q4 2008 is unlikely to be carried through as contagion from the global economy affects the South African economy. (Standard Bank Newsletter, Business Day, March 2, 2009)

South Africa's House Prices Still Falling

¶4. (U) Data released by two South African banks confirm that house
Q4. (U) Data released by two South African banks confirm that house
prices are in negative territory. First National Bank (FNB) reported a 4.0% decline for January in its latest house price index, while Standard Bank reported a 3.6% decline during the same month. Weakness in the property market is likely to continue throughout 2009, although decreases in inflation and interest rates may help improve property market conditions. Standard Bank expects a further 250 basis-point reduction in the repo rate (the rate at which banks borrow money from the Reserve Bank) over the rest of 2009. Although

interest rates may decrease, housing price inflation trends lag behind changes in demand trends, which supports the expectation that house price might only recover in 2010. (Fin 24, March 3, 2009)

New Vehicle Sales Continue to Tumble

¶5. (U) Association of Automobile Manufacturers of South Africa (NAAMSA) figures showed a 36.3% year-on year (y/y) drop in new vehicle sales in February 2009. The number of new vehicles sold dropped from 46,285 in February 2008 to 29,471 in February 2009. These grim figures indicated that consumers and businesses had reduced spending on new vehicles in response to the high interest rate, difficulty in obtaining vehicle financing, and continued economic woes. Sales registered sharp declines across all segments of the new vehicle market in February. Sales of new passenger cars dropped by 34.1%, light commercial vehicles by 40.3%, medium commercial vehicles by 28.5%, and heavy trucks and buses by 41.4%. New vehicle export sales declined by 27.5% in February, NAAMSA reported. The decline was attributable to depressed global demand for vehicles because of the global recession. Improvement in the domestic vehicle market depended on a revival of consumer spending, aggressive interest rate reductions, and fiscal stimulus. Export sales should improve once the global economic crisis abates. Prices for new vehicles are increasing due to the weak rand against stronger currencies including the yen and the dollar. (Business Day, March 4, 2009)

No Basic Income Grant, Says
ANC's Gwede Mantashe

¶6. (U) African National Congress (ANC) Secretary-General Gwede Mantashe has ruled out adding a basic income grant to South Africa's welfare system on the grounds that such a grant would be "unsustainable" and "simplistic." He told a panel discussion hosted by the South African Chamber of Commerce and Industry and Old Mutual

he wanted to see child support extended to 18-year-olds, and he disputed the view that South Africa's labor laws were too rigid. "It's a question of rands and cents, it's not about what you want to do but what you can do," he posited. It was the first time Mantashe had stated that the ANC's new leadership was not keen on a basic income grant for which the party's allies - the Congress of South African Trade Unions and the South African Communist Party - have been vigorously campaigning. (Business Day, March 5, 2009)

Trade Expert Derides South Africa's
Response to Economic Crisis

¶7. (U) Trade economist Peter Draper has dismissed a proposed South African response to the global economic crisis as incoherent and unlikely to achieve any realistic outcome. Speaking at an event hosted by the Centre for Enterprise Development, Draper commented that the National Economic Development and Labour Council's (NEDLAC) recently released rescue package was inconclusive and did not constitute a coherent policy. A wide range of measures to bolster the ailing economy and to stem job losses in the face of the global
Qthe ailing economy and to stem job losses in the face of the global
economic downturn would be initiated. The package would establish a role for the state and development finance institutions in funding vulnerable sectors such as clothing and textiles, mining, automotives and capital equipment; gearing government spending towards local procurement and generally promoting "buy local" campaigns; and using trade policy measures to protect local industries. Government should balance monetary and fiscal policy, with monetary policy "doing the heavy lifting," Draper remarked. "The monetary policy toolbox is nowhere near empty and because there is room to maneuver, we should not go with too much gusto to the fiscal policy toolbox. Then we run the risk of heavy-handed government." Draper lamented the lack of capacity in responsible government departments and a concurrent lack of transparency in policy formulation. He worried that government was turning to fiscal policy - using taxpayers' money - which could give rise to "protection by stealth." Draper called for the government to focus instead on sector-wide extension services such as telecommunications

and adequate transport infrastructure to help advance local companies' competitiveness. (Business Day, March 5, 2009)

Transnet Names Acting CEO

¶8. (U) State-owned freight and transport logistics group Transnet has named Chris Wells as its acting CEO while Transnet continued its search for a permanent replacement for Maria Ramos, who began her tenure as the CEO of banking group Absa on March 2. Wells joined Transnet in 2005; he is Transnet's CFO and he serves as one of two executive directors on its board. Industry experts said that the appointment of Wells as the acting CEO should provide immediate stability at a time when many are speculating that Transnet's R80 billion ($7.6 billion) five-year capital program had become vulnerable to the slowdown in the global and domestic economies. (Engineering News, March 2, 2009)

Vodacom to Make JSE Debut

¶9. (U) South African mobile-telecoms giant Vodacom expects to list on the main board of the Johannesburg Stock Exchange (JSE) on May 5. Vodacom is owned 50% by South African telecoms group Telkom and 50% by the UK's Vodafone, but the companies plan to part ways in accordance with a R22.5 billion ($2.1 billion) deal that was announced late last year. Telkom would sell 15% of its stake to Vodafone, Vodafone's interest in Telkom to 65%. Vodacom would then

be listed, and Telkom would unbundle its remaining 35% interest in Vodacom to its shareholders. The free float would be 21%, with government and the Public Investment Corporation retaining the 14% balance. The transactions were subject to various conditions, including approval by Telkom shareholders at a general meeting scheduled for March 26. (Engineering News, March 3, 2009)

Energy Minister Says South Africa
Faces Imminent Power Distribution Crisis

¶10. (U) South Africa is facing an "imminent" electricity distribution network crisis, with the infrastructure investment backlog having risen to an estimated R27 billion ($2.5 billion), Minister of Minerals and Energy Buyelwa Sonjica warned on March 3. Sonjica insisted that the restructuring of the fragmented distribution system was urgent, and warned that a collapse in the distribution system would "plunge us back into darkness." EDI Holdings has been mandated to oversee the restructuring of the industry and the creation of six regional electricity distributors (Reds), but it has hit snag upon snag since its creation in July
¶2003. Sonjica did not provide any firm timeframes for when the program could ultimately be completed, noting that the process, which was much debated in the late 1990s, has been under way for more than five years. Legislative obstacles and reticence of municipalities to buy into the restructuring for fear of the revenue implications were the key reasons behind recent delays. Sonjica insisted that the national government remained committed to the creation of the Reds, arguing that delays were imposing significant costs related to equipment failures and the investment in private Qcosts related to equipment failures and the investment in private back-up power systems. EDI Holdings CEO Phindile Nzimande reported that an action plan had been agreed to and would focus on 12 priority cities. (Engineering News, Business Day, March 4, 2009)

Ferrochrome Producer Closes
Furnaces but Keeps Staff

¶11. (U) Ferrochrome producer Xstrata-Merafe is closing more furnaces, but retaining permanent staff. Xstrata-Merafe has shut 17 of its 20 furnaces, equal to 80% of its capacity. Holding company Merafe Resources CEO Steve Phiri said the three remaining furnaces were producing a special type of ferrochrome for which there was still a market and were using a special process that kept operating costs below current prices. Phiri predicted that the price of

ferrochrome would not recover until the second half of 2009 when ferrochrome stockpiles should start to normalize. Benchmark ferrochrome prices fell from $1.85 per pound in fourth quarter 2008 to $0.79 per pound in first quarter 2009, as the global economic downturn triggered cutbacks in stainless steel production, the major use for ferrochrome. South Africa is the world's number one producer and exporter of ferrochrome with almost one-half of global production. Phiri noted that none of the 6,000 permanent employees had been laid off, although 390 contractor jobs were terminated. Merafe would not proceed with planned expansions, Phiri remarked. Merafe's expansions were first halted because of power shortages, and are now on hold because of the global downturn. (Mining Weekly, Business Day, March 4, 2009)